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ABSTRACT

In this study, the problem of youth and minority employment in the United States is analyzed. The scope and character of the problem is defined. To demonstrate worsening trends, data from selected years since 1946 are presented. A preliminary explanation of supply and demand in the labor market is offered. A number of the causes of youth employment, as outlined in the current literature, are reviewed. These include market restrictions, minimum wage laws, discrimination, and inadequate skills. Other possible adverse effects are hypothesized to result from the market control of unions, the Davis-Bacon (wage protection) Act, and present manpower policies. The discussion is supported and supplemented by extensive statistical tables on various facets of U.S. youth and minority employment. Aspects of this data are compared to relevant statistics from other countries. Policy recommendations, including better job training and education, and the reduction of restrictive practices in the labor market, are offered. (GC)

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95th Congress
1st Session

JOINT COMMITTEE PRINT

YOUTH AND MINORITY UNEMPLOYMENT

A STUDY

PREPARED FOR THE USE OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

SPONSORED BY

JAMES A. MCCLURE, *U.S. Senator*
ORRIN G. HATCH, *U.S. Senator*
CLARENCE J. BROWN, *U.S. Representative*
JOHN H. ROUSSELOT, *U.S. Representative*

U S DEPARTMENT OF HEALTH,
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LETTERS OF TRANSMITTAL

JULY 1, 1977.

To the Members of the Joint Economic Committee:

Transmitted herewith is a study entitled "Youth and Minority Unemployment" by Walter E. Williams. This study is sponsored by four Minority Members of the Joint Economic Committee, Senator James A. McClure, Senator Orrin G. Hatch, Representative Clarence J. Brown, and Representative John H. Rousselot. The views expressed in this study are those of its author and do not necessarily represent the views of the members of the Joint Economic Committee or the committee staff.

Sincerely,

RICHARD BOLLING,
Chairman, Joint Economic Committee.

JUNE 27, 1977.

Hon. RICHARD BOLLING,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study entitled "Youth and Minority Unemployment" by Walter E. Williams. This study was prepared for the use of the Joint Economic Committee in its continuing examination of the problems of youth and minority unemployment.

The author has studied various market restrictions which he believes exacerbate employment problems of youth and minority workers. To this end, the study reviews some of the current literature on the effects of minimum wages on minority and youth unemployment. The study also surveys the possible adverse results from the market control of unions, the Davis-Bacon Act, job discrimination, licensure, inadequate educational skills, and present manpower policies.

While some of the conclusions of the author may be provocative, they should stimulate additional discussion of the problems of teenage unemployment.

Sincerely,

JAMES A. MCCLURE,
ORRIN G. HATCH,
CLARENCE J. BROWN,
JOHN H. ROUSSELOT,
Members, Joint Economic Committee.

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YOUTH AND MINORITY UNEMPLOYMENT

By WALTER E. WILLIAMS* **

Persistently high rates of unemployment in several segments of the United States labor force is one of the most difficult unsolved socioeconomic problems of the post-World War II era. The segments of the labor force that seemingly produce the most intractable problem, in terms of finding a solution, are its youth and minority members. These segments of the labor force pose an especially perplexing problem because they face high rates of unemployment *even* when the labor force as a whole experiences relatively low rates of unemployment. This study will focus especially on the problem of youth unemployment, with particular emphasis on minority youth, hoping to: (1) Understand the scope and character of the problem, (2) analyze possible causes of the problem, (3) comment on the effectiveness of past and proposed policy, and (4) make some of its own policy recommendations.

SCOPE AND CHARACTER OF THE PROBLEM

In 1947 the male teenage (16–19) unemployment rate stood at 10.9 percent compared to the overall rate among all males of 4 percent.[1] Female teenage unemployment in 1947 was 7.8 percent while the overall unemployment rate among their older counterparts was 3.7 percent.[2] By midyear 1975, teenage unemployment reached 21.2 for males and 19.6 for females.[3] In no year during 1948–76 did male or female teenage unemployment rates ever fall below the 7 percent level, which was approached in 1953. These figures are shown in table 1.

During this postwar period youths, age 20-24, fared better in the labor market than did their younger counterparts but compared poorly to their older counterparts (the general labor force). In 1947 males 20-24 had an unemployment rate of 8.5 percent while females in the same age group experienced an unemployment rate of 4.6 percent. By midyear 1975, these figures for males and females respectively had risen to 15.1 percent and 12.8 percent.[4] Generally, in recent years, teenage unemployment has averaged 5 times that of the civilian labor force over 25 years of age, while youths 20-24 have experienced an unemployment rate which has averaged 2.5 times that

* Associate professor, Department of Economics, Temple University.

** This study was done for the Joint Economic Committee, U.S. Congress. The views expressed herein do not necessarily reflect those of the Joint Economic Committee nor those of my colleagues at Temple University.

[1] U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975—Reference Edition" (Washington, D.C.: U.S. Government Printing Office, 1975), p. 148.

[2] Ibid., p. 149.

[3] U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment in 1974–75 Recession," Monthly Labor Review (January, 1976), p. 52.

[4] Ibid., "Youth Unemployment," p. 52.

TABLE 1.—UNEMPLOYMENT RATES, BY SEX AND AGE, 1948–76

Year	Males			Females		
	Total 16 and over	16–19	20–24	Total 16 and over	16–19	20–24
1948	3.6	9.8	6.9	4.1	8.3	4.9
1949	5.9	14.2	10.4	6.0	12.3	7.3
1950	5.1	12.7	8.1	5.7	11.4	6.9
1951	2.8	8.1	3.9	4.4	8.3	4.4
1952	2.8	8.9	4.6	3.6	8.0	4.5
1953	2.8	7.9	5.0	3.3	7.2	4.3
1954	5.3	13.5	10.7	6.0	11.4	7.3
1955	4.2	11.6	7.7	4.9	10.2	6.1
1956	3.8	11.1	6.9	4.8	11.2	6.3
1957	4.1	12.4	7.8	4.7	10.6	6.0
1958	6.8	17.1	12.7	6.8	14.3	8.9
1959	5.3	15.3	8.7	5.9	13.5	8.1
1960	5.4	15.3	8.9	5.9	13.9	8.3
1961	6.4	17.2	10.7	7.2	16.3	9.8
1962	5.2	14.7	8.9	6.2	14.6	9.1
1963	5.2	17.2	8.8	6.5	17.2	8.9
1964	4.6	15.8	8.1	6.2	16.7	8.6
1965	4.0	14.1	6.3	5.5	15.7	7.3
1966	3.2	11.7	4.6	4.8	14.1	6.3
1967	3.1	12.3	4.7	5.2	13.5	7.0
1968	2.9	11.6	5.1	4.8	14.0	6.7
1969	2.8	11.4	5.1	4.7	13.3	6.3
1970	4.4	15.0	8.4	5.9	15.6	7.9
1971	5.3	16.6	10.3	6.9	17.2	9.6
1972	5.9	15.9	9.2	6.6	16.7	9.3
1973	4.1	13.9	7.3	6.0	15.2	8.4
1974	4.8	15.5	8.7	6.7	16.5	9.5
1975	6.3	21.2	15.1	7.3	19.6	12.8
1976	7.3	19.1	12.9	8.6	18.9	11.9

Sources: U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975—Reference Edition"; "Youth Unemployment in the 1974–75 Recession," Monthly Labor Review, January 1976; and "The Employment Situation," April 1977.

of the general civilian labor force. The unemployment rate for youths is cast in even dimmer light when we consider that while youths (16-24) comprise 25 percent (22 million) of the labor force, they represent 50 percent of total unemployment.

Statistical measures of youth unemployment disaggregated by sex and age tells only one part of the picture. If we analyze the racial composition of youth unemployment, another part of the problem stands out in stark relief. Negro youths constitute a little over 11.5 percent of the 16-24 age civilian labor force. While the unemployment rate for the entire 16-24 youth population in 1975 was about 17 percent, black youth unemployment was over 28 percent. About 365,000 Negro teenagers (16-19) or nearly 40 percent of the black labor force of that age are jobless. Unemployed Negroes age 20-24 totaled 375,000 or 23 percent of the black labor force of that age. Among black youth, in both age groups, unemployment is distributed nearly equally by sex. Statistics on black youth unemployment do not, themselves, give the full story for at least two reasons: (1) We have not discussed the discouraged worker, one who would prefer to be employed but has withdrawn from the labor market out of frustration, and hence would not be included in unemployment statistics; and (2) the statistics that we have cited are national statistics and they tell us nothing about regional differences in youth unemployment which has been estimated to be as high as 60 percent among blacks 16-19 in some urban areas. Composite statistics for the Nation as a whole on the basis of poverty and nonpoverty areas are shown in table 2.

TABLE 2.—UNEMPLOYMENT RATES FOR SELECTED GROUPS IN POVERTY AND NONPOVERTY AREAS

Sex, age, and color	Total United States				Metropolitan areas				Nonmetropolitan areas			
	Poverty areas		Nonpoverty areas		Poverty areas		Nonpoverty areas		Poverty areas		Nonpoverty areas	
	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976
TOTAL												
Both sexes, 16 years and over	11.2	10.6	8.7	8.1	13.5	14.2	8.6	8.1	9.7	8.2	8.9	8.1
Males, 20 years and over	9.7	9.0	7.2	6.7	12.6	13.8	7.2	6.7	7.9	6.1	7.2	6.8
Females, 20 years and over	10.2	9.3	8.0	7.5	10.3	11.1	7.7	7.5	10.1	8.0	9.1	7.6
Both sexes, 16–19 years	25.5	25.9	20.2	19.6	33.1	31.6	20.6	20.2	20.4	22.3	18.7	17.9
WHITE												
Both sexes, 16 years and over	9.2	8.5	8.3	7.7	10.5	11.2	8.3	7.7	8.6	7.4	8.5	7.8
Males, 20 years and over	7.9	7.0	6.9	6.4	9.8	10.4	6.9	6.3	7.2	5.6	6.9	6.6
Females, 20 years and over	9.0	7.9	7.8	7.1	8.5	9.7	7.5	7.1	9.2	7.1	8.7	7.4
Both sexes, 16–19 years	18.6	20.9	19.0	18.6	23.4	24.0	19.3	18.9	16.5	19.7	17.9	17.6
BLACK AND OTHER												
Both sexes, 16 years and over	16.4	16.0	12.5	12.5	16.9	17.6	11.7	12.4	15.5	12.9	17.8	13.3
Males, 20 years and over	14.8	15.0	10.9	10.9	16.1	18.3	10.2	10.7	12.5	9.2	16.1	12.5
Females, 20 years and over	12.8	12.4	10.2	10.9	12.2	12.4	9.3	10.8	14.1	12.3	15.8	11.9
Both sexes, 16–19 years	41.0	38.2	38.2	34.0	43.2	39.2	37.6	35.7	37.1	36.2	42.4	24.9

Source: U.S. Department of Labor, Office of Information, News Release, Apr. 12, 1976.

These statistics produce the unchallengable fact that the youth sector of the labor market experiences the highest rate of unemployment. The Nation's youth face a rate of unemployment which even in the best of times, stays at a rate often three and a half times that of the labor force as a whole.

High youth unemployment would not be such a critical problem if youth employment was considered only as a means to supplement family income or to earn "spending change." The absence or presence of early work experiences have effects which may spell the difference between a successful or unsuccessful future work career. The period 16 to 24 years of age, and perhaps even earlier, can be looked upon as one of transition-from-school-to-work. Early work experiences, even in the most menial of tasks, aids the individual in the acquisition of skills and attitudes that will make him a more valuable employee in the future. Early work experiences (1) teach individuals effective job search techniques; (2) teach effective work habits such as promptness, respect for superiors and other work habits; (3) provide self-respect and confidence that comes from being financially independent or semi-independent; (4) provide the valuable opportunity to make mistakes at a time when mistakes are not as likely to be as costly as they would be when the worker has dependents counting on him for a continuous source of income.[5]

The failure to acquire these labor market skills, that economists summarize as "investment in human capital" is not the only effect

[5] Many would argue that "dead-end" jobs deny the individual career related skills. However, skills such as those listed are missing in many of our disadvantaged youth and can be obtained in any job. Moreover, the whole notion of "dead-end" jobs is meaningless if it means a job without prospects for advancement. Most people experience career advancement across jobs as opposed to within a particular job. Moreover, to assign certain jobs as "dead-end" is unfortunate because it often creates false and unrealistic labor market expectations among our youth.

of high youth unemployment. Inadequate work opportunities may also act as disincentive for many youths to continue their formal training. Inadequate youth employment options may also contribute significantly to criminal activity and other antisocial behavior.

High youth unemployment has these effects which are undesirable from both an individual and social point of view. Quite naturally, at least two questions arise: (1) Why are youths, particularly minority youths, so disproportionately represented on unemployment rolls; (2) what set of policies might remedy this situation? The first question is essentially a question of cause and effect. Economic theory, as other theoretical frameworks, can readily answer this kind of question. By contrast, asking what government should do about teenage unemployment opens up the potential for unending debate. This is because no theory, including economic theory, can answer questions that are essentially normative. That is, while economic theory can definitely say who bears what burden of a particular policy, it cannot in any moral sense justify a policy or its distribution of the costs and benefits. Economic theory can say this policy (law or program) produces that result. Thus, the following will constitute an analysis of youth unemployment, emphasizing causal factors.

Causes of Youth and Minority Unemployment

Before discussing factors having a direct bearing on youth unemployment some brief comments about the demand for, and supply of labor in general may be helpful.

Whatever the emotional value of the phrase, "Labor is not a commodity," the cry of many labor organizations, labor services are exchanged on the market and conform to the same laws of the marketplace as do commodities. Namely, the higher the wage for labor, the lower the demand for labor; and the higher the wage for labor, the greater the amount of labor offered. The truly unique aspect of the labor market is that people are not sold; only their labor services are sold.

When the wages for labor services rise relative to productivity, it does not necessarily follow that people will do without the service in question. On the contrary, people will seek substitutes for that resource whose price has risen. There is a vast array of substitutes. Some concrete examples with which we all are familiar will make this point clear.

Suppose the wage rate of labor producing shoes rises relative to its productivity. Shoe manufacturers can respond by: substituting machines for the labor (automation); substitute foreign for domestic labor by moving to countries where the labor is cheaper. Yet another response, that by consumers, is to substitute foreign-produced shoes for American-produced shoes. These responses have the net effect of reducing the demand for American labor that produces shoes.

Another example of responses to an increase in the wages of labor, say in the construction industry, is to substitute on-site construction with off-site construction. In other words, more preassembled construction materials are used. A response to an increase in the wages of skilled craftsmen is an increase in the number of people that undertake do-it-yourself type projects. A response to increases in the wage rates of elevator operators is the substitution of automatically operated

elevators for those that are manually operated (a transition that has become nearly fully complete). Obviously, an infinite variety of examples can be given of responses to changes in the price of labor. The crucial point that needs to be understood is that people do respond to changes in the price of resources in a way so as to economize on the usage of the resource whose price has risen.[6]

While many people are familiar with these examples, the "substitution effects" underlying the laws of supply and demand are not fully appreciated in many policy discussions. In the next sections I will present a theoretical discussion of labor market factors that affect youth unemployment with particular emphasis on labor market restrictions, followed by statistical evidence of these restrictions.

Minimum Wage Laws

Federal and State minimum wage laws are an act of governmental intervention in the labor market that are intended to produce a pattern of events other than that produced in a free market. In practice minimum wage laws specify a legal minimum hourly wage to be paid. Certain industries and worker classes are exempted from the law. Among the major exceptions are highly seasonal amusement area workers, restaurant employees who receive part of their wages in gratuities, employees in small firms (less than $500,000 in annual sales), some agricultural employees and college students doing summer work.

The debate over the desirability of the minimum wage law has continued for well over 50 years, producing little agreement between advocates and opponents. However, most economists agree on a number of issues concerning wage rates in general which can be helpful in evaluating the effects (not desirability) of governmental intervention in the labor market.

The minimum wage law raises the wage to a level higher than that which would have occurred with uncontrolled economic forces. Legislative bodies have the power to legislate a wage increase; this much is clear. But when they legislated a wage increase, have they also legislated a worker productivity increase? That is entirely unlikely. To the extent that the minimum wage law raises the pay level to that which may exceed some worker's productivity, employers will make adjustments in their use of labor. Such an adjustment by employers will produce gains for some groups of workers at the expense of other groups. Those workers who retain their jobs and receive a higher wage clearly gain. The most adverse employment effects fall upon those workers who are most disadvantaged in terms of marketable skills, who lose their jobs and their income.[7] This effect is more clearly seen if we put ourselves in the place of an employer and ask the question: If a wage of $2.30 per hour must be paid no matter who is hired, who does it pay the firm to hire? Clearly the answer, in terms

[6] It is interesting to note that labor organizations as well as others have invested resources in political action to subvert the operation of the free market by attempting to reduce the number of substitutes available. For example, they lobby for tariffs and import quotas on shoes, building codes which limit the amount of off-site construction, and limit the amount of do-it-yourself projects through codes requiring that, for example, certain types of house wiring be done by licensed electricians. The stated reasons given for these efforts are those of high social objectives such as: protecting American labor from sweat shops abroad, guarantee high quality workmanship, guarantee public safety, etc. Regardless of reasons given for such action, one effect common to all of them is to reduce the number of substitutes, reduce the level of competition, and raise product prices.

[7] Edmund S. Phelps, "Inflation Policy and Unemployment Theory" (New York: W. W. Norton and Co., Inc., 1972), pp. 64–66.

of economic efficiency, is to hire the worker whose productivity is the closest to $2.30 per hour. If such workers are available, it clearly does not pay the firm to hire those whose output is, say, $1.50 per hour. Even if the employer were willing to train such a worker, the fact that the worker has to be legally paid more than his output is worth plus training costs incurred makes on-the-job training an unattractive proposition.

The impact of legislated minimum wages can be brought into sharper focus if we ask the distributional question: Who bears the burden of legislated minima? As we said earlier, workers who are the most disadvantaged by minimum wage legislation are those that are the most marginal. These are workers whose employers perceive them as being less productive or more costly to hire, in some sense, than other workers. In the U.S. labor force, there are at least two segments that share the marginal worker characteristic to a greater extent than do other segments of the labor force. The first group consists of youths. They are low-skilled mostly because of their age, immaturity and lack of work experience. The second group, which contains members of the first group, are some ethnic groups such as Negroes, who as a result of racial discrimination and a number of other socioeconomic factors are disproportionately found among marginal workers. Other segments of the labor force represented among marginal workers in disproportionate numbers are women, the uneducated, and the physically handicapped. Unemployment statistics showing a comparison of teenage and general employment rates for the period 1948 to 1975 are presented in table 3.

TABLE 3.—COMPARISON OF TEENAGE AND GENERAL UNEMPLOYMENT RATES

Year	Unemployment rates both sexes		Ratio teenage, general
	General	16–19	
	(1)	(2)	(3)
1948	3.8	9.2	2.42
1949	5.9	13.4	2.27
1950	5.3	12.2	[1] 2.30
1951	3.3	8.2	2.48
1952	3.0	8.5	2.83
1953	2.9	7.6	2.62
1954	5.5	12.6	2.29
1955	4.4	11.0	2.05
1956	4.1	11.1	[1] 2.70
1957	4.3	11.6	2.70
1958	6.8	15.9	2.34
1959	5.5	14.6	2.65
1960	5.5	14.7	2.67
1961	6.7	16.8	[1] 2.50
1962	5.5	14.7	2.67
1963	5.7	17.2	[1] 3.02
1964	5.2	16.2	3.12
1965	4.5	14.8	3.28
1966	3.8	12.8	3.37
1967	3.8	12.9	[1] 3.39
1968	3.6	12.7	[1] 3.53
1969	3.5	12.2	3.49
1970	4.9	15.2	3.10
1971	6.9	16.9	2.86
1972	5.6	16.2	2.89
1973	4.9	14.5	[1] 2.96
1974	5.6	16.0	2.86
1975	8.1	21.9	2.68
1976	7.8	19.0	2.66

[1] Years when there were changes in either the amount or coverage of the Federal minimum wage law.

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975—Reference Edition," p. 145.

Columns 1 and 2 show the unemployment rates for the general labor force and the teenage labor force. Column 3 expresses teenage unemployment as a ratio of the general labor force's unemployment rate.[8]

Table 3 shows that with increases in the Federal minimum wage the teenage unemployment rate relative to adult unemployment usually rises, i.e., the ratio increased (with the exception of 1956, 1968, and 1973). In each year, except 1956, 1968, and 1973, adult unemployment declined relative to that of teenagers following an increase in the Federal minimum. Arthur F. Burns, in a study of the impact of legislated Federal minimum wages, said:

> During the postwar period the ratio of unemployment rate of teenagers to that of male adults was invariablly higher during the 6 months following an increase of the minimum wage than it was in the preceding half year. The ratio of the unemployment rate of female adults to that of male adults has behaved similarly. Of course, the unemployment of teenagers and women depends on a variety of factors—certainly on business conditions as well as on minimum wage. I have tried to allow for this in a more refined analysis. It appears whether we consider the unemployment rates of teenagers or that of women, that its primary determinants are, first, the general state of the economy as indicated by the unemployment rate of adult males, second, the ratio of the minimum wage to the average in manufacturing. The influence to the wage ratio turns out to be particularly strong in the case of nonwhite teenagers.[9]

While most studies agree on the effect of the minimum wage law on youth unemployment, there is some disagreement on the magnitude of the effect. The U.S. Department of Labor conducted an investigation of the impact of the minimum wage law on youth unemployment.[10] It reached the conclusion that—

> Increases in the level and coverage of the Federal minimum wage may have contributed to the employment problems of teenagers, but it is difficult to disentangle such effects from numerous other influences. * * * The long run rise in the unemployment rate of teenagers relative to that of adults—especially marked since 1962—appears to have been associated with many factors. Compounding problems have been the increase in the relative size of the teenage population, the increase in the proportion of youth enrolled in school, and the shift of employment out of agriculture. [11]

One response to an increase in the minimum wage law is not to hire fewer teenagers but to hire teenagers with higher productivity. The Bureau of Labor Statistics found some evidence that this was occurring. They found that whenever an employer raised age or education requirements for any group, the most common reason given was increased costs of training and hiring and the second most common reason was the minimum wage.[12]

Perhaps in recognition of the adverse effects of the minimum wage legislation on youth employment, most States have established a differential wage minima for youth based on age, education, or work experience. Most have a youth minima ranging from 75 to 85 percent of the adult minima. The Bureau of Labor Statistics findings are mixed on the impact of youth wage differentials on youth unemployment. Some of the States surveyed report that the youth differential

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[8] For example, if such a ratio was 1, the two unemployment rates would be equal. If the ratio is 2, this means that teenage unemployment is twice as high as that of the general labor force.

[9] Arthur F. Burns, "The Management of Property" (New York: Columbia University Press, 1966), pp. 47-48.

[10] U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment and Minimum Wages" (Washington, D.C.: U.S. Government Printing Office, 1970).

[11] Ibid., p. 187.

[12] Ibid., p. 71. Perhaps one question that can be asked of advocates of the minimum wage law is that if it is such a good law, why permit exceptions?

is irrelevant to hiring decisions while others thought that youth unemployment would be higher without the differential.

Other factors play a role in reducing job opportunities for youth. Factors such as child labor laws which restrict hours of work,[13] the tedious process of employers and employees to get work certificates, and the attitudes and conduct of some youth.[14]

STATISTICAL STUDIES OF THE MINIMUM WAGE

A number of other important studies have tried to evaluate the effect of legislated wage minima on unemployment. The conclusions of some representative samples of these studies will be summarized in this section.

David E. Kaun[15] using census data found that statutory wage minimums caused plant closures and the replacement of labor by other productive inputs. Also the most adverse effects of statutory minimums were concentrated among minorities, teenagers and females.

Yale Brozen[16] in two studies discusses the impact of the minimum wage law. First he shows that the ratio of teenage unemployment to that of the general rate of unemployment rose and the ratio of nonwhite to white teenage unemployment rose following increases in the federal statutory minimum wage. In another study he concluded that workers adversely affected by the statutory minimum crowd into uncovered areas, such as domestic household work, increasing employment and depressing wages in the uncovered areas. See appendix tables at the end of the study for data supporting Brozen's conclusions.

Kosters and Welch[17] conclude that the minimum wage has had the effect of reducing job opportunities for teenagers during periods of normal employment growth and making their jobs less secure in short-term changes in the business cycle. They go on to conclude that a disproportionate share of cyclical vulnerability is borne by nonwhite teenagers and the primary beneficiaries of shifts in employment patterns are white adult males.

That increases in statutory legal minimum wages reduce employment opportunities for youth is not without dissenters.

Hugh Folk,[18] using Department of Labor data statistically analyzes the impact of minimum wages on youth unemployment and youth labor market participation rates. The study concludes that in no instance was the minimum wage variable statistically significant in explaining either teenage unemployment or labor market participation rates.

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[13] Years ago child labor laws prevented youth from working in dangerous mines and factories. Now these same laws prevent them from working in plush, air-conditioned buildings.

[14] The Department of Labor study reports that some youths have unrealistic wage expectations in view of their productivity and would not even accept employment at the then Federal minimum of $1.60 per hour.

[15] David E. Kaun, "Minimum Wages, Factor Substitution, and the Marginal Producer," Quarterly Journal of Economics (August 1965), pp. 478–486.

[16] Yale Brozen, "The Effect of Statutory Minimum Wages on Teenage Employment," Journal of Law and Economics (April 1969), pp. 109–122; Yale Brozen, "Minimum Wage Rates and Household Workers," Journal of Law and Economics (October 1962), pp. 103–109.

[17] Marvin Kosters and Finis Welch, "The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment," American Economic Review (June 1972), pp. 323–332.

[18] Hugh Folk, "The Problem of Youth Unemployment," in "The Transition From School to Work" (Princeton: Princeton University Press, 1969), pp. 187–205.

Folk's study, however, finds a significant relationship between the overall trend of teenage unemployment and the minimum wage law.

Michael C. Lovell,[19] in an analysis of the minimum wage law and teenage unemployment stresses the importance of the size of the teenage labor force, which grew as a share of the total labor force by over 50 percent between 1954 and 1968, as a cause of high teenage unemployment. Lovell feels that since teenagers are not perfect substitutes for adult workers, the increase in the teenage population would have pushed unemployment rates up in the absence of any change in the minimum wage.

Bowen and Finegan,[20] in a statistical study of the 100 largest metropolitan areas, report:

> To state the most important conclusion first: Metropolitan areas with high wage levels for teenage males tended to have relatively low activity rates for all three groups, although the coefficient for males 20–24 is small and just shy of significance at the 10 percent level. These are important findings because they provide strong support for the hypothesis that a generally high level of wages deters participation via a reduction in employment opportunities.[21]

In addition to the finding that low labor market participation rates are associated with high teenage wage levels, this study also finds that the intercity differences in teenage unemployment is associated with artificially high wage levels.[22] The study points out that wage level differentials *are not* caused by strictly market forces such as systematic productivity differences or high demand for teenagers. The differences are more likely to be associated with institutional forces such as legislated wages, community and union pressures.

The weight of academic research is that unemployment for some population groups is directly related to statutory wage minima. As mentioned earlier, the debate on the effects and the extent of those effects continues without full consensus. However, a consensus reached implicitly in all minimum wage studies, those of opponents and supporters, is that increases in statutory minimums do not increase job opportunities for the marginal or disadvantaged segments of the labor force.

MINIMUM WAGE AND NEGRO YOUTH

So far we have discussed youth unemployment in general. Now let us discuss and compare black youth unemployment and labor force participation rates relative to those of their white counterparts. Table 4 shows male youth unemployment by race and general unemployment. Tables 5 and 6 give civilian labor force participation rates by race and age for males and females respectively.

The most obvious observation from the tables is that black teenage (16–17) unemployment during earlier periods, 1948–54 (except 1949), was lower than white unemployment for the same age group. For black 18–19 year olds, the unemployment rates for the same period were higher than those of their white counterparts, but never more than 50 percent higher. For blacks 20–24, their unemployment rate relative to that of whites has not changed significantly (only minor fluctuations), during the period 1948–1975.

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[19] Michael C. Lovell, "The Minimum Wage, Teenage Unemployment and the Business Cycle," Western Economic Journal (December 1972), pp. 414–427.

[20] William G. Bowen and T. Aldrich Finegan, "The Economics of Labor Force Participation" (Princeton: Princeton University Press, 1969).

[21] Ibid., pp. 451-452. The authors define activity rate as the proportion of a population group who are enrolled in school, in the labor force, or both.

[22] Ibid., pp. 456-457.

TABLE 4.—COMPARISON OF MALE YOUTH AND GENERAL UNEMPLOYMENT BY RACE

Year	General	White, 16–17	Black, 16–17	Black/white, ratio	White, 18–19	Black, 18–19	Black/white, ratio	White, 20–24	Black, 20–24	Black/white, ratio
1948	3.8	10.2	9.4	0.92	9.4	10.5	1.11	6.4	11.7	1.83
1949	5.9	13.4	15.8	1.18	14.2	17.1	1.20	9.8	15.8	1.61
1950	5.3	13.4	12.1	.90	11.7	17.7	1.51	7.7	12.6	1.64
1951	3.3	9.5	8.7	.92	6.7	9.6	1.43	3.6	6.7	1.86
1952	3.0	10.9	8.0	.73	7.0	10.0	1.43	4.3	7.9	1.84
1953	2.9	8.9	8.3	.93	7.1	8.1	1.14	4.5	8.1	1.80
1954	5.5	14.0	13.4	.96	13.0	14.7	1.13	9.8	16.9	1.72
1955	4.4	12.2	14.8	1.21	10.4	12.9	1.24	7.0	12.4	1.77
1956	4.1	11.2	15.7	1.40	9.7	14.9	1.54	6.1	12.0	1.97
1957	4.3	11.9	16.3	1.37	11.2	20.0	1.79	7.1	12.7	1.79
1958	6.8	14.9	27.1	1.81	16.5	26.7	1.62	11.7	19.5	1.66
1959	5.5	15.0	22.3	1.48	13.0	27.2	2.09	7.5	16.3	2.17
1960	5.5	14.6	22.7	1.55	13.5	25.1	1.86	8.3	13.1	1.58
1961	6.7	16.5	31.0	1.89	15.1	23.9	1.58	10.0	15.3	1.53
1962	5.5	15.1	21.9	1.45	12.7	21.8	1.72	8.0	14.6	1.83
1963	5.7	17.8	27.0	1.52	14.2	27.4	1.93	7.8	15.5	1.99
1964	5.2	16.1	25.9	1.61	13.4	23.1	1.72	7.4	12.6	1.70
1965	4.5	14.7	27.1	1.84	11.4	20.2	1.77	5.9	9.3	1.58
1966	3.8	12.5	22.5	1.80	8.9	20.5	2.30	4.1	7.9	1.93
1967	3.8	12.7	28.9	2.26	9.0	20.1	2.23	4.2	8.0	1.90
1968	3.6	12.3	26.6	2.16	8.2	19.0	2.31	4.6	8.3	1.80
1969	3.5	12.5	24.7	1.98	7.9	19.0	2.40	4.6	8.4	1.83
1970	4.9	15.7	27.8	1.77	12.0	23.1	1.93	7.8	12.6	1.62
1971	5.9	17.1	33.4	1.95	13.5	26.0	1.93	9.4	16.2	1.72
1972	5.6	16.4	35.1	2.14	12.4	26.2	2.11	8.5	14.7	1.73
1973	4.9	15.1	34.4	2.28	10.0	22.1	2.21	6.5	12.6	1.94
1974	5.6	16.2	39.0	2.41	11.5	26.6	2.31	7.8	15.4	1.97
1975	8.1	19.7	45.2	2.29	14.0	30.1	2.15	11.3	23.5	2.08
1976	7.9	19.7	40.6	2.06	15.5	35.5	2.29	10.9	22.4	2.05

Source: Adapted from Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975—Reference Edition" (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 153–155.

Turning to tables 5 and 6, labor force participation rates, we make the remarkable finding that black youths 16–17, 18–19, and 20–24 had a higher rate of labor force participation during earlier times. In fact, the labor force participation rates were higher than labor force participation of white youths. For example, in 1955, in age group 16–17 the labor force participation rates of black males and white males were the same. In 1974 the labor force participation rates of blacks age 16–17 was only 65 percent of that of whites age 16–17. In the case of black males 18–24, their labor force participation rates in 1955 were higher than those of whites. Now it is lower.

Jacob Mincer, in an important econometric study of minimum wage laws reports:

> The net minimum wage effects on labor force participation appear to be negative for most of the groups. The largest negative effects are observed for nonwhite teenagers, followed by nonwhite males (20–24), white males (20–24), white teenagers, and nonwhite males (25–64).
>
> The net employment effects are negative with the exception of nonwhite females (20 plus), for whom the positive coefficient is statistically insignificant. The largest disemployment effects are observed for nonwhite teenagers, followed by nonwhite males (20–24), white teenagers, and white males (20–24).[23]

Professor Mincer's study points out that the official unemployment rate is likely to understate the disemployment effects of the minimum wage law. He states, "No more than a third of the employment loss in the covered sector appears as unemployment, while the bulk withdraws from the labor force." Incentives to drop out of the labor market and to become permanently unemployed are no doubt increased by the availability of alternative sources of income such as

[23] Jacob Mincer, "Unemployment Effects of Minimum Wages," Journal of Political Economy (August 1976), pp. 87–105.

TABLE 5.—MALE CIVILIAN LABOR FORCE PARTICIPATION RATIO BY RACE, AGE

	Black/white males			
	16–17	18–19	20–24	16 and over
$1 per hour:				
1954	0.99	1.11	1.05	1.00
1955	1.00	1.01	1.05	1.00
1956	.96	1.06	1.01	.99
1957	.95	1.01	1.03	.99
1958	.96	1.03	1.02	1.00
1959	.92	1.02	1.04	1.00
1960	.99	1.03	1.03	1.00
$1.15 per hour:				
1961	.96	1.06	1.02	.99
1962	.93	1.04	1.03	.98
1963	.87	1.02	1.03	.98
1964	.85	1.01	1.04	.99
$1.25 per hour:				
1965	.88	1.01	1.05	.99
1966	.87	.97	1.06	.98
$1.40 per hour: 1967	.86	.95	1.04	.97
$1.60 per hour:				
1968	.79	.96	1.03	.97
1969	.77	.95	1.02	.96
1970	.71	.92	1.00	.96
1971	.65	.87	.98	.94
1972	.68	.85	.97	.93
1973	.63	.85	.95	.93
1974	.65	.85	.95	.92
1975	.57	.79	.92	.91
1976	.57	.77	.91	.90

Sources: Computed from U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975 and 1976 Reference Editions" (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 36–37.

TABLE 6.—FEMALE CIVILIAN LABOR FORCE PARTICIPATION RATIO BY RACE, AGE

Year	Black/white females			
	16–17	18–19	20–24	16 and over
$1 per hour:				
1954	0.84	.72	1.12	1.38
1955	.76	.83	1.02	1.34
1956	.84	.84	.97	1.32
1957	.75	.81	1.02	1.32
1958	.81	.79	1.05	1.32
1956	.69	.71	1.10	1.33
1960	.74	.85	1.07	1.32
$1.15 per hour:				
1961	.73	.86	1.02	1.31
1962	.75	.88	1.03	1.31
1963	.77	.88	1.04	1.29
1964	.68	.94	1.10	1.29
$1.25 per hour:				
1965	.71	.79	1.12	1.27
1966	.74	.83	1.07	1.26
$1.40 per hour: 1967	.71	.92	1.03	1.23
$1.60 per hour:				
1968	.71	.88	1.08	1.21
1969	.69	.83	1.04	1.19
1970	.66	.81	1.00	1.16
1971	.60	.75	.97	1.15
1972	.54	.76	.95	1.13
1973	.58	.77	.93	1.11
1974	.56	.74	.91	1.08
1975	.60	.74	.86	1.08
1976	.55	.70	.86	1.07

Sources: Computed from U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975 and 1976 Reference Editions" (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 36–37.

welfare, enrollment in training programs which provide a stipend and criminal activity as a form of earning a living.

These findings are consistent with and offer additional support to the theoretical proposition that statutory legal minimum wages reduce employment opportunities for disadvantaged or marginal workers. They are also consistent with Professor Arthur Burn's

earlier study which shows that an increase of 25 cents in the statutory legal minima is associated with a rise of 8 percentage points in nonwhite unemployment.[24]

YOUTH EMPLOYMENT IN OTHER COUNTRIES

Relevant to the analysis of youth unemployment in the United States is the comparison of youth unemployment records in other industrialized countries. In the United Kingdom, unemployment rates of both adults and youths ran about 2.5 percent as of January 1969. As shown in the following tables 7, 8, and 9, West Germany, The Netherlands, Sweden, Belgium, and Japan experienced relatively low rates of youth unemployment. It is probably no coincidence that countries experiencing low rates of youth unemployment are countries with relatively large wage differentials between the legal minima for youths and adults.

TABLE 7.—UNEMPLOYMENT RATES IN THE UNITED KINGDOM

Date	Unemployment rate			Youth-adult ratio
	All ages	15 to 19	25 and over	
April 1961	1.7	2.3	1.6	1.44
Do	1.3	.9	1.4	.64
July 1966	1.1	1.1	1.1	1.00
January 1967	2.2	2.6	2.1	1.24
July 1967	2.0	2.2	2.0	1.10
January 1968	2.6	2.6	2.5	1.04
July 1968	2.2	2.0	2.2	.91
January 1969	2.5	2.3	2.5	.92

Source: Data for table 7 was obtained from the U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment and Minimum Wages." (Washington, D.C.: U.S. Government Printing Office, 1970).

TABLE 8.—UNEMPLOYMENT RATES AND THE YOUTH-ADULT UNEMPLOYMENT RATIO FOR SELECTED COUNTRIES

Country	Unemployment rate, all ages		Youth unemployment rate		Youth-adult unemployment ratio [1]	
	1960–64	1967–68	1960–64	1967–68	1960–64	1967–68
Germany (1961–67)	[2] 0.3	1.1	[2] 0.3	1.1	[2] 1.0	1.0
Canada [3] (1962–66)	6.9	4.0	14.4	9.7	2.4	2.6
Netherlands (1960)	.9		1.4		1.8	
United Kingdom (1961–67)	[4] 1.3	[4] 2.0	[4] .9	[4] 2.2	[4] .6	[4] 1.1
	[2] 1.7		[2] 2.3		[2] 1.4	
Sweden (1964–67)	1.7	2.6	3.9	6.1	2.6	2.9
France (1960)	2.1		6.6		4.4	
Belgium (1960)	2.5		4.0		1.7	
Italy (1961–67)	3.4	3.5	9.3	11.4	4.9	5.7
United States (1960–68)	5.5	3.6	[5] 14.7	[5] 12.7	3.3	5.5

[1] Ratio of youth unemployment rate to adult unemployment rate for adults 25 and over. Data from labor force surveys except as noted. Data not strictly comparable among countries.
[2] Census data for 1961.
[3] Outry, Sylvia, unemployment in Canada, 1968, males only, ratio: youth/all ages.
[4] Labor Ministry data from unemployment insurance records.
[5] Youth unemployment data relate to 16- to 19-year-olds.

Source: Data for table 8 was obtained from the U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment and Minimum Wages." (Washington, D.C.: U.S. Government Printing Office, 1970).

[24] *Op cit.*, Arthur E. Burn, "The Management of Prosperity," p. 48.

TABLE 9.—EMPLOYMENT STATUS OF TOTAL LABOR FORCE AND YOUTH IN JAPAN, 1961–67

[In thousands]

Years	Labor force		Employed		Unemployed			
					Total		15 to 19 years	
	Total	15 to 19 years	Total	15 to 19 years	Number	Percent	Number	Percent
1961	45,620	4,250	45,180	4,200	440	1.0	60	1.4
1962	46,140	4,260	45,740	4,200	400	.9	60	1.4
1963	46,520	4,080	46,130	4,020	400	.8	60	1.5
1964	47,100	3,820	46,730	3,770	370	.8	40	1.0
1965	47,870	3,920	47,480	3,860	390	.8	60	1.5
1966	48,910	4,360	48,470	4,300	440	.9	60	1.4
1967	49,780	4,510	49,350	4,150	440	.9		

Source: Data for table 9 was obtained from the U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment and Minimum Wages." (Washington, D.C.: U.S. Government Printing Office, 1970).

For example, in the United Kingdom, teenagers enter employment at about 30 percent of the adult wage and in steps reach the adult level when they are 21. In West Germany youths enter employment at wages ranging from 60 to 90 percent of the adult rate. In The Netherlands, the wage rates for youth normally begin at 25 to 30 percent of the adult wage rate, reaching 100 percent of the adult rate by the age 20 to 23. In France and Canada, there is only a 20 to 30 percent reduction for young workers and the duration of the reduction for the individual is only a year or so.

Another important feature of those countries experiencing very low rates of teenage unemployment, as reported in the Department of Labor study, was that there were good counseling services available for youth, large apprenticeship programs and good placement services. These factors reinforce the beneficial effects of the youth differential by making the young person an even more attractive candidate for employment.

Unions

Governmental market intervention through the minimum wage laws is not the only form of restrictive practice which limits job opportunities. The Congress through the Wagner Act of 1935 and its subsequent modifications conferred upon unions extensive labor market monopoly powers. The ways of market control used by unions are similar to those used by a group of firms that attempt to monopolize a market, i.e., that of price fixing. The most important difference is that price fixing, collusion and restriction of competition by firms is illegal, while price fixing, collusion and restriction of competition by unions is protected by the law and is legal.[25]

Unions have enormous power over many aspects of the labor market. Part of this power lies in its ability to influence wages and negotiate other aspects of the labor contract in its role of being labor's exclusive bargaining agent. A cursory review of the labor movement in the United States would reveal how organized labor, with but a few exceptions, sought to exclude Negroes and other minorities from many

[25] For an analysis of union collusive practices, see, G. Warren Nutter, "Limits of Union Power" in "The Public Stake in Union Power," ed., Philip Bradley (Virginia: University of Virginia Press, 1959), pp. 284–300.

job markets.[26] Exclusionary devices have ranged from union charter provisions that restrict membership to "white only," to requirements restricting membership to sons and/or relatives of union members, or job referral based on seniority rights. Today, union exclusionary techniques are not as flagrant, but strong exclusionary techniques do exist, as will be discussed.

Trade unions advance the economic interests of their members by negotiating agreements referring to the terms and the conditions of work. Their overall goal is to obtain higher wages for their members. To the extent that union activity can increase wages to a level higher than that dictated by the market, economic reasoning suggests that unions will be concerned with maintaining their relative advantage. Tactics to maintain their relative advantage consists of the following activities: (1) Restricting the supply of labor; (2) increasing the demand for the product its members produce; (3) the elimination of substitutes for its labor.[27]

There are several important ways that unions can control entry.[28] One way is through worker training. Since training is necessary for some skilled jobs, unions can regulate access to some programs that it manages. In most cases, however, unions cannot fully control the number of persons who learn a particular skill, but it can control the number of workers who are admitted to the union. Such a restriction is very effective if the union has an agreement, which most craft unions do, with the employer to hire workers who are referred by the union or hire workers who are acceptable to the union. Other union techniques to limit access to full membership status and apprenticeship programs are: (1) Age and citizenship requirements; (2) lengthy apprenticeship programs; (3) use of probationary union membership status and work permits for seasonal and temporary jobs to protect senior members in slack periods from job competition; (4) nepotic rules whereby preference is given to relatives of union members; (5) member sponsorship requirement in some unions; (6) worker competency requirements; and (7) racial discrimination. These exclusionary techniques are most often used in the craft unions (particularly the building craft unions),[29] but they are not completely absent in the industrial unions.

None of my arguments should be construed as antiunion statements nor is it implied that unions serve no useful social purpose. Whatever the stated purpose of union practices, one effect is to restrict entry to the craft. I might add that though unions today do not use explicit racial criteria for entry, per se, the widely accepted entry rules have a racial effect as suggested by the small numbers of minorities in many unions, particularly the craft unions.[30]

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[26] For extensive documentary see, Ray Marshall, "The Negro and Organized Labor" (New York: John Wiley & Sons, Inc., 1965); Sterling D. Spero and Abram Harris, "The Black Worker" (New York: Columbia University Press, 1931); Herbert R. Northrup, "Organized Labor and the Negro" (New York: Kraus Reprint Co., 1971); Gunnar Myrdal, "An American Dilemma" (New York: McGraw-Hill Book C., 1964).

[27] For this paper we are mostly concerned with labor supply restrictions. Examples of the last two union strategies are: union support for tariffs and quotas on cheaper foreign imports; support for building code restrictions on the use of off-site building assembly and featherbedding. See Richard A. Posner, "Economic Analysis of Law" (Boston: Little, Brown & Co., 1972), pp. 133–138.

[28] See Armen A. Alchian and Reuben A. Kessel, "Competition, Monopoly, and the Pursuit of Pecuniary Gain," in "Aspects of Labor Economics," ed. H. Gregg Lewis (Princeton: Princeton University Press, 1962), pp. 172–175.

[29] See, John Landon and William Peirce, "Discrimination, Monopsony, and Union Power in the Building Trades," Monthly Labor Review (April, 1972), pp. 24–26. See also, Herbert Hammerman, "Minority Workers in Construction Referral Unions," Monthly Labor Review (May, 1972), pp. 17–26.

[30] See Gary S. Becker, "Union Restrictions on Entry," in "Public Stake in Union Power," Philip D. Bradley (ed) (Virginia: University of Virginia Press, 1959), pp. 209–224, reports: "Discrimination against minorities and nepotism towards relatives also appear to be greater in craft unions and the greatest in the strongest craft unions."

The Davis-Bacon Act

Another kind of market entry restriction is the Davis-Bacon Act. This act was enacted on March 31, 1931, for the purpose of protecting local wage rates on Federal construction from the competition with lower wage nonlocal labor. The requirements of the act were that all workers on Federal construction projects were to be paid the prevailing local wages, usually interpreted as being prevailing union wages. The proponents of the Davis-Bacon Act were concerned about the tendency for nonunion and nonlocal contractors to underbid contractors in a high wage and highly unionized areas. The proponents of the Davis-Bacon Act argued that successful bidders often imported labor from the South and other low wage areas, thereby producing unemployment and lower wages in high wage areas.[31]

One effect, relevant to the present discussion, of the Davis-Bacon Act, was that it discouraged nonunion contractors from bidding on government construction jobs mainly because to do so would disrupt a company's work force through problems that would arise from some of its workers receiving higher wages than those on private jobs and the morale problems when worker wages were reduced when the Government construction job was completed.[32] To the extent that nonunion contractors are discouraged from competition on a substantial part of the construction market, it has economic consequences for minority workers and young workers who are more likely to work in the nonunionized sector of the construction industry.[33] Furthermore, Professor Yale Brozen [34] argues that the high apprenticeship wage rates required by the Davis-Bacon Act discourages the use of apprentices on Federal construction jobs which acts to counter the Federal Government's efforts to train youth and minorities through its various manpower training programs.[35]

Discrimination

Discrimination in the labor market is one of the most frequently cited causes of black/white differentials in terms of labor force participation, rates of unemployment, and wages. No doubt, racial discrimination does play a part in explaining such differentials. However, there are many factors that influence labor market activity. Many of these factors are conceptually and/or statistically elusive which makes it very difficult to determine how much of observed differences between black/white labor market activity is due to racial discrimination.

For example, as shown in previous tables, black/white differences in labor force participation rates and unemployment rates, particu-

[31] "The Legislative History of the Davis-Bacon Act" (Washington, D.C.: U.S. Government Printing Office, 1962), p. 1.

[32] General Accounting Office report to Congress, "The Need for More Realistic Minimum Rate Determinations for Certain Federally Financed Housing in Washington Metropolitan Area" (Washington, D.C.: U.S. Government Printing Office, 1968); see also, Richard L. Rowan and Lester Rubin, "Opening the Skilled Construction Trades to Blacks" (Philadelphia: University of Pennsylvania Press, 1972), p. 93.

[33] The "1967 Survey of Economic Opportunity" shows that only 27 percent of nonwhite craftsmen and 35 percent of nonwhite laborers in construction reported union membership.

[34] Yale Brozen, "The Davis-Bacon Act: How To Load the Dice Against Yourself" (unpublished manuscript), University of Chicago, 1971. Professor Brozen points to another undesirable consequence of the Davis-Bacon Act on minorities, though not an employment question. That is, the act hampers government efforts to stimulate production of low and moderate housing through its extension providing coverage for federally assisted housing. That is, the higher labor costs on federally assisted housing often offset the interest subsidy granted by the Federal Government.

[35] For an interesting summary of the effects of the Davis-Bacon Act, see John P. Gould, "Davis-Bacon Act: The Economics of Prevailing Wage Laws" (Washington, D.C.: American Enterprise Institute, 1972).

larly those of teenagers, are greater in the 1970's than they were in the 1940's. No matter what answer we give to explain this trend, the one that we cannot give is one that asserts that society in general has become more racially discriminatory over this period. In fact, a general consensus would reveal that the opposite is the case. The reason must lie elsewhere.

It is always quite difficult to discern, with complete confidence, whether a particular act or phenomenon in the labor market is caused by discriminatory motives. That is, the absence of minorities in some jobs may reflect real or imagined productivity differences. More reliable evidence for the possibility of inequality of job opportunity is whether there are institutional mechanisms that facilitate the indulgence in racial or sexual biases held by employers and "preferred" workers. In other words, my argument shall be that government efforts to promote job opportunity without regard to race or sex should be directed towards elimination of institutional mechanisms that promote (lower the cost of) indulgence in racial and sexual bias. What are the institutions that tend to produce this effect? The answer in general is that whenever there is an institutional provision that requires as one of the conditions of exchange that the terms of the exchange be sanctioned by a third party, there is an increased likelihood of some form of market irrelevant discrimination to exist. To see that this is the case is found in the answer to the question—why is it that racially discriminatory union membership policy adversely affects job opportunities for minorities? Clearly, if workers could obtain employment without joining the union, then whether the union practiced racially discriminatory membership policies or not would be irrelevant to minority job opportunities. But in many areas of the labor market unions control access to jobs and under such a condition union membership policy affects job opportunities for minorities.

Licensure

Entry into certain occupations is regulated by law. Licensure laws and certification requirements, though having some social merit, limit entry into trades and hence reduce employment opportunities. Licensing laws have another important effect which is: To the extent that it limits entry, licensure makes the incumbent practitioners' incomes higher than they would be in the absence of licensure. This helps us understand why many trade associations, using the powers of the State, seek to restrict entry.[36] Often these trade associations have real enforcement power in that members of licensing boards are most often incumbent practitioners.

The relevance of licensure to this discussion is that it is another form of labor market restriction that produces adverse effects that are mostly borne by youth, minorities, and other disadvantaged people. For example: The taxicab business is one in which there are low skill and low capital requirements for entry. It is also one where there can be gainful employment and a lucrative income can be earned. But participation by many would-be entrants is foreclosed by the

[36] See Simon Rottenberg, "The Economics of Occupational Licensing," in "Aspects of Labor Economics," (ed.) H. Gregg Lewis (Princeton: Princeton University Press, 1962), pp. 3-20. Also Walter Gellhorn, "Individual Freedom and Governmental Restraints," (Louisiana: Louisiana State University Press, 1956).

high entry costs in most cities. Some cities, like Los Angeles, have granted exclusive taxicabs monopolies to companies such as Yellow Cab. In other words, under the pain of punishment no other company can operate within the Los Angeles city limits. Some cities require a medallion for each vehicle. In New York city medallions cost between $26,000 and $28,000. In other cities such as Chicago and Baltimore, the fee varies from $14,000 to $18,000. There is no social justification for such a high entry fee; the sole purpose is to restrict entry, thereby keeping cab rates high and incomes high for the incumbent practitioners.[37]

There are a number of licensed occupations ranging from barbers and beauticians to tree surgeons having age and other restrictions that reduce employment opportunities that would otherwise be open for youth and many disadvantaged members of our population.[38]

Education

In a world of increasing credentialism and increasing skill level requirements, formal education tends to be correlated with job stability and employment. Department of Labor data show this correlation in table 10.

The youth group most adversely affected, as would be expected, by unemployment are those men and women who are high school dropouts. Their overall unemployment rate in October of 1975 was 25.3 percent compared to an overall unemployment rate for high school graduates of 13.6. For black youths who dropped out of high school, their unemployment rate was 35.4 percent. Perhaps more illuminating of the sad state of affairs for black youth is that the unemployment rate for black high school graduates was higher than the unemployment rate for white high school dropouts, 24.1 and 22.8 respectively.

There are a number of possibly appealing explanations for this latter aspect of black/white employment differences. But surely not to be excluded among those explanations is the poor high school education that many blacks receive. This is testified to by the fact that manpower programs have found that even the black participants with high school diplomas are deficient in reading and mathematic skills.[39] Whites also are faced with some deterioration in the quality of schooling in the United States. But poor quality education has a differential impact on blacks who not only come from families with low socioeconomic status, but also must fight the legacy of racial discrimination and racial stereotypes. Indeed, the differential impact of inferior black education is seen in many labor market differences between blacks and whites.

[37] It is interesting to note that in New York, and elsewhere, gypsy cabs (illegal practitioners) flourish. But they operate in areas of the city where the legal cab companies refuse to operate because of the high crime rate (Spanish Harlem and Harlem). The authorities turn their faces to the practice. I would speculate that should the gypsy cab operate in the lower crime rate, more remunerative areas, legal companies would compel the authorities to curtail their operation.

[38] See Benjamin Shimberg et al., "Occupational Licensing: Practices and Policies" (Washington, D.C. Public Affairs Press, 1973). Licensing laws can be used to the detriment of minorities in other ways. It is interesting to note that during the 1930's an amendment requiring U.S. citizenship was added to most occupational licensure laws. This time period happened to coincide with the large migration of skilled Jews to the United States as a result of the hostilities in Europe. The reader is left to decide whether these were unrelated events.

[39] Op. cit., "The Impact of Government Manpower Programs," pp. 92-93.

TABLE 10.—EMPLOYMENT STATUS OF PERSONS 16 TO 24 YR OLD, BY SCHOOL ENROLLMENT STATUS, EDUCATIONAL ATTAINMENT, SEX AND RACE, OCTOBER 1974 AND 1975

[Numbers in thousands]

Characteristics	Civilian noninstitutional population		Civilian labor force									
			Number		Percent of population		Employed		Number		Percent of labor force	
	1974	1975	1974	1975	1974	1975	1974	1975	1974	1975	1974	1975
Total, 16 to 24 yr old	33,968	34,700	21,818	21,833	64.2	62.9	19,306	18,564	2,514	3,268	11.5	15.0
Enrolled in school	14,482	15,284	6,562	6,730	45.3	44.0	5,702	5,716	862	1,012	13.1	15.0
16 to 19 yr	10,666	11,163	4,434	4,551	41.6	40.8	3,750	3,772	684	778	15.4	17.1
20 to 24 yr	3,816	4,121	2,128	2,179	55.8	52.9	1,952	1,944	178	234	8.4	10.7
White	12,405	13,077	5,912	6,096	47.7	46.6	5,236	5,241	677	855	11.5	14.0
Black and other	2,077	2,207	651	633	31.3	28.7	469	478	182	156	28.0	24.6
Elementary and high school	7,862	8,063	3,311	3,279	42.1	40.6	2,759	2,641	552	636	16.7	19.4
White	6,549	6,710	2,972	2,997	45.4	44.7	2,538	2,450	434	546	14.6	18.2
Black and other	1,313	1,350	339	283	25.8	21.0	221	192	118	92	34.8	32.5
Not enrolled in school	19,486	19,416	15,256	15,103	78.2	77.8	13,604	12,848	1,652	2,256	10.8	14.9
High school grade, no college	10,350	10,366	8,371	8,379	80.9	80.8	7,553	7,238	818	1,141	9.8	13.6
White	9,078	9,124	7,354	7,417	81.0	81.3	6,717	6,508	637	909	8.7	12.3
Black and other	1,270	1,242	1,014	962	79.8	77.5	835	730	179	232	17.7	24.1
High school dropouts	4,847	4,824	3,108	2,969	64.1	61.5	2,514	2,219	594	750	19.1	25.3
16 to 19 yr	2,079	2,001	1,380	1,230	66.4	61.5	1,042	862	338	368	24.5	29.9
20 to 24 yr	2,769	2,822	1,728	1,740	62.4	61.7	1,472	1,358	256	382	14.8	22.0
White	3,866	3,742	2,525	2,382	65.3	63.7	2,115	1,840	410	542	16.2	22.8
Black and other	982	1,082	582	588	59.3	54.3	398	380	184	208	31.6	35.4
College graduates	1,452	1,373	1,339	1,290	92.2	94.0	1,272	1,183	67	107	5.0	8.3
White	1,313	1,275	1,219	1,208	92.8	94.7	1,167	1,107	52	101	4.3	8.4
Black and other	140	99	121	81	86.4	81.8	105	76	16	5	13.2	6.2
College, 1 to 3 yr	2,837	2,851	2,438	2,465	85.9	86.5	2,265	2,707	173	258	7.1	10.5
White	2,537	2,527	2,195	2,209	86.5	87.4	2,055	2,003	140	206	6.4	9.3
Black and other	300	324	244	256	81.3	79.0	210	204	34	52	13.9	20.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, Summary Special Labor Force Report, March 1976

Effects of Past Manpower Policies

Public concern with poverty and unemployment during the relatively prosperous times of the 1960's led to the formulation of additional manpower policy. Much of this concern was expressed in the Manpower Development and Training Act of 1962 (MDTA). This act authorized the Department of Labor (DOL) and the Department of Health, Education and Welfare (HEW) to develop programs which would have the overall objectives of increasing the competitive position of the disadvantaged through: improving education and skills; raising the level of job market information; counseling and changing work attitudes. The Neighborhood Youth Corps (NYC) was established under the Economic Opportunity Act (EOA) of 1964. This program, targeted toward youths, provides training and employment for high school dropouts, part-time job-school programs, and summer employment opportunities. Both the MDTA and EOA acts, through the desire to decentralize and give states and local jurisdictions a greater role, have been superseded by the Comprehensive Employment and Training Act of 1973 (CETA). Since the original MDTA, a number of federally financed programs have been added to our manpower programs such as: Operation Mainstream, Public Service Careers, Special Impact Concentrated Employment Program, Job Opportunities in Business, Work Incentive Program, Job Corps, and Public Employment Program. As shown in table 11, the cumulative enrollment opportunities from 1967 through 1974 under the Federal manpower programs, were over 9 million, at a cost of over $14 billion.

There are many plausible objectives of U.S. manpower programs. However, in terms of stated program objectives, we must ask at least two general questions in determining their overall efficacy: (1) Have the programs enhanced the labor market competitiveness of those individuals participating in them, and (2) have the programs changed institutional labor market barriers faced by program participants and nonparticipants? Evaluative studies of U.S. manpower policy have produced mixed answers on results.[40] Some evidence suggests that some manpower training programs are little more than expensive income transfer (welfare) schemes. In fact an official government report recognized that "* * * a man may enroll in one of the training programs which pay stipends, in order to get funds to tide him over a lean period." [41]

Levitan and Taggert, III, in a study of the Neighborhood Youth Corporation reported: "A comprehensive follow-up of enrollees leaving the program between January and September 1966, found that 40 weeks after termination, less than two-fifths were employed (and) more than a fourth were not in the labor force." [42]

Granted the inherent problems in evaluating the cost-effectiveness of manpower training programs and granted the mixed findings of researchers, one undeniable fact remains. The segment of the population initially targeted for assistance through many manpower pro-

[40] See Charles Perry, Bernard E. Anderson, Richard L. Rowan, and Herbert R. Northrup, "The Impact of Government Manpower Programs" (Philadelphia: University of Pennsylvania, 1975).
[41] U.S. Department of Labor, "1970 Manpower Report of the President" (Washington, D.C.: U.S. Government Printing Office, 1970).
[42] Sar Levitan and Robert Taggert III, "Employment of Black Youth in Urban Ghettos" (New York Twentieth Century Fund, 1971), p. 101.

TABLE 11.—ENROLLMENT OPPORTUNITIES AND FEDERAL OBLIGATIONS FOR WORK AND TRAINING PROGRAMS ADMINISTERED BY THE DEPARTMENT OF LABOR THROUGH 1974 (FISCAL YEARS)

Program	Enrollment opportunities[1] (in thousands)								Federal obligation (in millions of dollars)							
	Total[2]	1967	1969	1970	1971	1972	1973	1974	Total[2]	1967	1969	1970	1971	1972	1973	1974
Total	9,140.8	808.5	910.7	1,011.3	1,149.6	1,562.3	927.4	439.3	14,367	796	1,030	1,419	1,485	2,697	2,153	2,143
Manpower Development and Training Act, total[3]	2,413.2	270.9	198.5	211.2	213.7	229.2	183.0	178.9	3,568	298	273	337	336	425	381	398
Institutional training	1,532.8	126.0	110.9	137.3	131.5	138.7	116.3	108.4	2,903	215	208	277	264	356	304	308
JOP–OJT[4]	880.4	144.5	77.8	64.0	69.2	90.5	66.7	70.5	665	83	59	50	60	69	77	91
Part time and other training	(5)	.4	9.8	9.9	13.0	(5)	(5)	(5)	(5)	(6)	6	10	12	(5)	(5)	(5)
Neighborhood Youth Corps, total[7]	5,396.8	512.8	539.7	600.0	698.9	863.0	661.3	177.3	3,721	349	321	357	426	517	417	662
In school	1,190.5	139.0	100.6	97.1	78.8	101.6	111.3	136.1	(8)	67	49	59	58	75	64	89
Out of school	562.3	79.5	51.9	45.4	40.1	41.6	38.7	41.2	(8)	148	124	98	115	122	107	114
Summer	3,644.0	294.3	387.2	457.5	580.0	719.8	511.3	.....	(8)	133	148	199	253	320	246	459
Work training in industry	.....	.2	1.9	.....	.....	.....	.....	.....	(8)	(6)	1	.....	.....	.....	(8)	(8)
Operation Mainstream[9]	163.9	8.0	13.5	17.8	23.3	22.3	32.3	35.8	490	24	41	51	72	85	81	115
Public Service Careers[9]	111.2	4.4	5.9	34.8	42.4	21.0	.....	.....	340	16	18	89	92	58	31	28
Special Impact	6.5	4.0	1.3	.....	.....	.....	.....	.....	.....	.....	1	1	.....	.....	.....	.....
Concentrated employment program[9,10]	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	1,097	78	114	188	167	155	130	146
JOBS (Federal financed)[11]	361.1	8.4	52.8	60.1	88.2	60.6	33.1	26.4	848	24	161	149	169	118	73	64
Work incentive program[12]	384.8	.....	99.0	65.7	60.7	149.5	.....	.....	886	.....	101	79	64	175	209	250
Job Corps	110.6	.....	.....	21.7	22.4	24.0	17.7	20.9	875	.....	.....	170	160	202	193	150
Public employees program	192.7	.....	.....	.....	.....	192.7	.....	.....	2,482	.....	.....	.....	.....	962	1,239	281

[1] Enrollment opportunities are the number of positions authorized each fiscal year. The number shown by fiscal year includes only those newly authorized in that year, although actual enrollment opportunities from previous years, if not filled, may still be available.

[2] Cumulative—inception of program through 1974.

[3] Program became operational in 1963.

[4] Beginning fiscal 1971, includes the JOBS-optional program (JOBS) and the MDTA on-the-job (OJT) program which ended in fiscal 1970 except for national contracts. Also includes construction outreach.

[5] Beginning with fiscal year 1972, institutional training includes part time and other training.

[6] Less than $500,000.

[7] Program became operational in 1965.

[8] Data not available for Neighborhood Youth Corps components prior to fiscal year 1967.

[9] Program became operational in 1967, including the new careers program.

[10] Program became operational in 1968.

[11] Data not meaningful because an individual may be enrolled in 1 or more program components

[12] Job opportunities in the business sector. Program became operational in 1969.

[13] Program became operational in 1969.

Source: U.S. Department of Labor, Manpower Administration.

grams, such as the hard-core unemployed, teenagers, and minorities, are just as bad off (in some cases worse off) than they were at the inception of these programs. The deterioration that has taken place is obvious when we look at labor force participation rates for Negro male youth. Labor force participation for Negro youths in 1962 for those 16–17, 18–19, 20–24 were 40.2, 68.8, and 89.3 respectively while in 1974 the labor force participation rates had dropped to 34.6, 62.4 and 82.1 respectively. The unemployment rates for the same groups show the other part of the deterioration that has taken place. In 1962 Negro male youths 16–17, 18–19, 20–24, were unemployed at a rate of 30, 21, 15 percent respectively while in 1974 the unemployment rates respectively were 39, 27, and 16 percent. For the same period white male youth labor force participation in each age group rose and in each age group unemployment fell, except for the 16–17 age group which rose from 15.1 to 16.2.

Thus, in terms of impact on job market conditions and opportunities for specifically targeted disadvantaged youth, past and present manpower policy has not solved youth unemployment.

Public Service Employment (Emergency Employment Act of 1971)

Recently, public service employment has attracted the attention of many as the solution to unemployment. Some of the factors which have brought attention to the public sector are the relatively high wages, e.g., few public sector employees earn less than what are considered poverty wages, and the level of job stability in the public sector, e.g., total State and local government rate of turnover averages 19 percent compared to 60 percent in manufacturing. Additional sources of current appeal of public service employment as a manpower policy is the recognition of wide, unmet, public "needs" such as: basic community services, transportation services, educational services, health, recreational and cultural services, etc. Many argue that the present level of services in all these categories is inadequate to meet public needs and an expansion of these services would provide more jobs. Such a manpower policy which makes the Government the employer of last resort is often talked about in high places today.[43]

Several issues arise in connection to the public service employment concept. Proponents of public service employment as a manpower policy always point to the "need" for additional public services to improve societal welfare. Needs as a justification for federal expenditures can serve any purpose any time because it is inconceivable that human needs or wants for public services can ever be fully met. In other words, argument can always be made for more waterways, cleaner streets, increased medical care, etc. On the other hand, in the discussion of public service employment, very little attention is paid to "bread and butter" issues such as who should pay how much for these services? Neither is the question raised regarding the change from private spending to public spending as will surely be the case when government takes a larger share of worker earnings to finance increased provision of public services.

[43] See for example, Augustus F. Hawkins, "Equality of Sacrifice or Opportunity?" in "Public Service Employment: An Analysis of Its History, Problems and Prospects," ed. Alan Gartner et al. (New York: Praeger Publishers, 1973), p. 89.

Turning to another issue, will public service employment produce the results stated by its proponents? Will public service projects such as those suggested by the proponents have a significant impact on those segments of the labor force commonly referred to as disadvantaged? There is some doubt to this. One report concludes that no more than 30 percent of the first people hired under the Emergency Employment Act were poor.[44]

Another question that has not been answered satisfactorily is: If the absence of marketable skills is the reason that many of the disadvantaged unemployed are unable to compete for jobs in the private sector, is there any reason to expect that they will be able to perform adequately in the public sector? The answer to this question, as seen by proponents of public service employment as manpower policy, is revealed, in part, by the nature of the attack on current civil service hiring procedures. For example:

> Even if the premise of a positive average relationship between schooling and productivity *were* correct, this would not justify the practice of credentialism by *public* employers. The "stockholders" of government "firms" are the public itself—including those very individuals against whom the credentialing procedure discriminates. And in any case, governments are not supposed to be profit-maximizing employers.[45]

In other words, many proponents of public service employment as a manpower policy argue for either a reduction in job requirements or an abolition of job requirements altogether.

Testing and Credentialism

Griggs v. *Duke Power Co.*,[46] has become the major judicial precedent against the use of unvalidated examinations and educational credentials. While I will not take a position as extreme as the authors of the last quote, there is acknowledgement that in many cases certain employee selection instruments bear a small relationship between what is necessary to get hired and the actual skills necessary for satisfactory performance of a job. However, testing and credentialism are important in several ways to the operation of the labor market.

Despite what was said about credentialism, there is a positive relationship between schooling and productivity. Social scientists may have technical difficulties in specifying the precise relationship because it is one of great complexity—but there is no social scientist known to this writer who would argue that there is a negative or neutral relationship. And there is no effort to abolish our educational system, as surely should be the case if schools did not make a difference.

Another aspect usually lost when people note the increasing amount of credentialism is that increased credentialism *could* be the cost of some other social action. That which most readily comes to mind are the more recent laws and court decisions concerning worker job tenure or job rights. In short, today it is much more difficult for an employer to

[44] Sheppard, Harrison and Spring, "The Political Economy of Public Service Employment" (Boston: D. C. Heath, 1972), p. 145.
[45] Ibid., p. 202.
[46] In *Griggs* v. *Duke Power Co.* (401 U.S. 424, 91 S. Ct. 849, 28 L. Ed. 2d. 158) the court held that job qualifications and aptitude tests were racially discriminatory even if they were equally applied. They were discriminatory and unlawful if they were not related to job performance and if they created a statistical racial imbalance or perpetuated the effects of past discrimination.

fire an employee whose performance is unsatisfactory. Regardless of whether one takes a moral position for or against these new worker rights, employers have a predictable response to them. Namely, since the cost of dismissing a "wrong" employee is higher, employers can be expected to take increased measures to reduce the probability of hiring the "wrong" employee. Educational credentials and written examinations, albeit imperfect, can constitute such a screening device.

Increased credentialism probably also reflects a general failure of the public education system in some areas. Employers probably consider reading and writing proficiency as an important worker attribute. In far too many cases, the possession of a high school diploma is no guarantee of the ability to read, write, or even complete an employment application. Given the reduced creditability of traditional credentials, many employers have incentive to use additional screening devices.

One policy suggestion offered to Congress as a measure to offset the effects of credentialism and testing (and to be incorporated into public service employment manpower policy) is the following:

> * * * To the extent that there is past or present discrimination in the education system, moreover, such "credentialism" discriminates against certain groups in the society. Therefore, the use of educational credentials and written test scores as employee selection instruments should be eliminated. Probably the only truly "fair" procedure would be to hire on a "first-through-the-door" or "random selection" basis, followed by an intensive probation period with supervisors' evaluations and other performance criteria determining whether the worker would be promoted to "permanent" status.[47]

This recommendation would not be worthy of comment were it not for the currency it and similar recommendations are receiving. It completely ignores the fact that there are costs associated with the hiring and training process. As such firms have incentive to reduce these costs by increasing, through screening techniques, the likelihood of selecting a successful job candidate. Employees may intentionally or unintentionally misrepresent themselves. There are costs associated with misrepresentations and employers thus have incentive to reduce these costs.

Qualifications and Employability

A basic misunderstanding of economics is reflected when people argue that the high rate of unemployment experienced by youth and minority workers is caused by their lack of qualifications relative to other members of the labor force. This is not true. Having low skills relative to other members of the labor force can explain low wages but not unemployment. A better answer is that unemployment reflects that low skilled people may prefer to remain unemployed than to accept a wage commensurate with their low productivity; or they are prevented, by law or some other means, from accepting a wage commensurate with their lower productivity.

In most discussion of skills or worker qualifications, qualifications are viewed as an absolute. Often worker qualifications are used as standards for union membership, job assignment, etc. Worker qualification, though superficially appearing fair or objective, is no talisman

[47] Ibid., p. 203. Prof. Ivar Berg, the author of this statement was also the author of evidence considered by the court in *Griggs* v. *Duke*.

as many people believe. No worker is qualified or unqualified in an absolute sense. Qualified or unqualified can only have meaning in a relative sense—relative to a wage. For example, a particular electrician may be qualified at a wage of $4.00 per hour and that same electrician be unqualified and "unemployable" at a wage of $8.00 per hour. It should be obvious to the reader that if an organization of electricians, through political activity, can require employers to pay a minimum hourly wage of $8.00 they have artificially disqualified and made unemployable the electrician who was formerly qualified and employable at a lower wage. On the other hand, the organization of electricians have improved their market position through the elimination of a competitive substitute—low skilled electricians. In other words, if the employer must pay $8.00 per hour, it pays him to hire the most skilled. The point being made in this paragraph is that at a sufficiently high enough wage *anyone* is unqualified and unemployable.

A concrete example of our discussion here is piece work rates. Years ago piece work rates were a common form of remuneration for work. While in no sense taking a moral position for or against this type of remuneration, the working of this institution highlights our discussion. The essential feature that concerns us is that the worker was paid according to his output. If the rate was 20 cents per unit a worker whose output was 100 units per day would earn more than a worker who could produce only 20 units per day. The former worker would earn $20.00 per day while the latter would earn $4.00 per day. The clear benefit of the system was that (*a*) the low skilled worker could be employed, and (*b*) he would get on-the-job-training (through doing and watching) that would increase the probability of his eventually increasing both his productivity and wages.

What would be the effect of abolishing the piece work rate and imposing an $18.00 per day minimum salary? One effect would be that the employer would not hire anyone who could not produce 90 units per day. This is tantamount to decreeing that if one could not produce 90 units per day he is not deserving of employment. Another effect is that such a step denies the low skilled person one of the most effective forms of skills acquisition; namely, on-the-job training. Yet another effect is that it disqualifies and causes to be unemployable the worker that was previously employed.

Policy Recommendations

Full employment, in general, requires a robust economy with a high level of aggregate demand. However, for some segments of the labor force such a prescription is insufficient. Statistical data presented in this study have shown that the two-to-one black/white unemployment ratio and the three-to-one teenage/adult unemployment ratio is not very responsive to aggregate demand. Therefore, monetary and fiscal policy designed to stimulate the general economy is apt to produce disappointing results in the teenage labor force and some segments of the minority labor force.

Measures to ameliorate youth and minority unemployment problems require different tools. The nature of these tools are indicated by the identification of the causes of teenage and minority unemployment. Quite simply put, involuntary unemployment is the result

of either (or the combination) of two factors:[48] (1) The individual has no service to offer which the market values, or (2) the individual does have a service to offer which the market values, but somehow he is restricted in the selling of that service. The first cause of unemployment can be subsumed under supply type characteristics of the individual frequently referred to as human capital.[49] The way to reduce unemployment (expand employment opportunities) caused by low-valued human capital is to provide people with more highly valued skills through training and education. The second source of unemployment, market entry restrictions, is reduced by changes in the institutional characteristics of the labor market. My policy recommendations will focus on these two related aspects of the labor market.

Education

A large part of the problem that youth, particularly minority youth, face in their transition from school to work is that they have received relatively poor schooling. Census data reveals that there has been a remarkable closing of the educational gap, measured in median years of education between blacks and whites. In fact the difference is negligible with median years of schooling for blacks being 12.2 years and that of whites 12.5 years. However, census data is misleading if one is attempting to measure the academic achievement of blacks vis-a-vis whites because the possession of a high school diploma is not necessarily synonymous with the ability to read, write and perform simple numerical calculations. The most comprehensive study of black/white differences in academic achievement was the Coleman report.[50] It reports that blacks, on the average, at grade 12 lag behind whites 3 to 5 years. More recent studies indicate that this gap has not been narrowed significantly.[51]

These findings indicate that a comprehensive policy to raise the level of marketable skills of blacks must also include efforts to improve the quality of education that blacks receive in their primary and secondary schooling. A good start in this direction is to give more serious attention to the often proposed voucher system which promises to build accountability into the educational system.[52]

Training

Effective career training can improve the skill level for many minority and young people, but as Willard Wirtz put it, "While the case for change is in the minds and hopes of scattered millions, the

[48] Even though the term "involuntary unemployment" is used by economists and noneconomists alike, it is a term that is misleading and ambiguous in common usage. Suppose an unemployed electrician were offered employment at a wage of $2.50 per hour and refused the offer, would we call his continued unemployment voluntary or involuntary? Obviously, he would be voluntarily unemployed since he made the decision not to work. He would rather search for better offers than accept such a low wage.

[49] Human capital, generally defined, is that set of marketable assets (talents and skills) that produces a stream of income over a lifetime. It has nothing to do with the intrinsic worth and rights of individuals.

[50] James S. Coleman et al., "Equality of Educational Opportunity" (Washington, D.C.: U.S. Office of Education, 1966), pp. 274–296.

[51] Grace C. Massey, M. Scott, S. Dornbush, "Racism Without Racists: Institutional Racism in Urban Schools," The Black Scholar, Vol. 7, No. 3 (November 1975); Finis Welch, "Labor-Market Discrimination: An Interpretation of Income Differences in the Rural South," Journal of Political Economy (June, 1967), pp. 225–240; Finis Welch, "Black-White Differences in Returns to Schooling," Rand Corporation Working Paper, 1972; Thomas Sowell, "Black Education: Myths and Tragedies" (New York: David McKay Co., Inc., 1972), especially chapter 9.

[52] See Milton Friedman, "Capitalism and Freedom" (Chicago: University of Chicago Press, 1962), pp. 85–107, for an explanation of the voucher system.

case for things as they are is in the hands of two or three strongly entrenched bureaucracies." [53] Licensing and credentialism stands in the way of labor market reform and impedes the flow of new labor into primary labor markets. Many times licensing serves no valuable social function but merely represents the vested interests of incumbent practitioners.[54] Therefore, comprehensive manpower policy aimed at improving job opportunities must look at effective ways of training. One way of producing effective training is through on-the-job training. Opportunities for on-the-job training are restricted by licensing laws and out-dated child labor laws.

Reduction of Restrictive Practices in the Labor Market

The major thrust of this study is that market restrictions exacerbate employment problems of youth and minority workers. As I have said earlier, the fact that the 2:1 black/white unemployment ratio, and the 3:1 teenage/adult unemployment ratio are not very responsive to high aggregate demand shows that improved performance of the national economy is not a sufficient prescription. The reduction and elimination of these ratios will require changes in the structure of the labor market. This means that revision in the institutional structure of the labor market must be the primary emphasis of Federal policy to reduce unemployment among the youths and minorities in this country.

The focus of these changes should be to promote voluntary and free exchange between workers and employers in a manner consistent with our democratic values. Such a change should include a reduction in the influence held by powerful interest groups over labor legislation and labor policy in the United States. More specifically, I recommend the following changes in labor law:

1. Abolition of Federal and State minimum wage laws. Failing this, there should be amendments in both Federal and all State laws to provide for a substantial wage differential for persons under the age of 21.[55]

2. Revision of child labor laws and a reduction in the school leaving age. This will allow many youth, to whom school is nothing more than a day care center, to begin their careers, gain maturity and perhaps at a later time continue their education.

3. Radical modification of the National Labor Relations Act and its subsequent amendments to allow for the possibility (in practice) of independent work contract negotiation between the individual worker and employer.[56] This recommendation in no way should be interpreted as being against voluntary associations (such as labor unions). In fact this recommendation serves to reinforce the right of voluntary association.

4. Reevaluation of current licensing and certification requirements are necessary not only to promote opportunities for on-the-job training but to improve market opportunities for individuals

[53] Willard Wirtz, "A New American Prospect," unpublished draft (Washington, D.C.: The Manpower Institute, May 24, 1974).

[54] Marcia Freeman, "Good Jobs, Bad Jobs: The Search for Shelters" (New York: Columbia University, Conservation of Human Resources, June 1974).

[55] It is interesting to note, though never proposed (and this writer does not propose), that carefully manipulated Federal maximum wage laws would have the opposite effect of minimum wage laws on marginal workers. It would discriminate in their favor.

[56] Many contracts are written as union shop contracts to comply with the Taft-Hartley Act, but are in effect closed shop contracts.

who already possess requisite skills. There are many areas of employment and/or business that are licensed solely for the purposes of entry restriction in order to protect the incumbent practitioners from increased competition. These should be abolished.

These policy recommendations are no doubt radical and will touch on the sensitivities and nerves of many vested interest groups. They do so because, if implemented, sharing in the Nation's resources would depend less on political power and affiliation and more on individual initiative and ambition. However, these are changes that are necessary to make the dream of equality of opportunity a reality for all Americans.

Appendix Tables

TABLE 1.—COMPARISON OF TEENAGE AND GENERAL UNEMPLOYMENT RATES (AVERAGES OF MONTHLY SEASONALLY ADJUSTED DATA)

	Unemployment rates (percent)		Ratio teenage/general	Minimum wage
	Ages 16–19	General		
February 1949–January 1950	13.9	6.2	2.2	$0.40
February 1950–January 1951	11.6	5.0	2.3	.75
March 1955–February 1956	11.0	4.2	2.6	.75
March 1956–February 1957	11.0	4.1	2.7	1.00
September 1960–August 1961	16.4	6.6	2.5	1.00
September 1961–August 1962	15.4	5.8	2.7	[1] 1.15 (1.00)
September 1962–August 1963	16.4	5.6	2.9	1.15 (1.00)
September 1963–August 1964	16.6	5.4	3.1	1.25 (1.00)
September 1964–August 1965	15.6	4.8	3.3	(1.15)
September 1965–August 1966	13.2	3.8	3.5	(1.25)
February 1966–January 1967	12.6	3.8	3.3	1.25
February 1967–January 1968 [2]	12.9	3.8	3.4	1.40 (1.00)
February 1968–December 1968	12.7	3.6	3.6	1.60 (1.15)

[1] Minimum wage figure in parenthesis is for jobs not currently covered prior to September 1961 and February 1967.
[2] Not comparable with earlier data because of the exclusion from the unemployment count of those seeking future jobs and not currently available for work.

Source: Yale Brozen, "The Effect of Statutory Minimum Wage Increases on Teenage Unemployment," Journal of Law and Economics (April 1969), p. 116.

TABLE 2.—COMPARISON OF TEENAGE UNEMPLOYMENT RATES, NONWHITE AND WHITE (BOTH SEXES, 16–19)

	Teenage Unemployment rates (percent)		Ratio, nonwhite/white
	Nonwhite	White	
February 1949 to January 1950	17.4	13.4	1.3
February 1950 to January 1951	14.8	11.2	1.3
March 1955 to February 1956	15.8	10.2	1.5
March 1956 to February 1957	18.1	10.0	1.8
September 1960 to August 1961	27.4	15.0	1.8
September 1961 to August 1962	25.3	13.9	1.8
September 1962 to August 1963	29.2	14.9	2.0
September 1963 to August 1964	28.4	15.0	1.9
September 1964 to August 1965	26.1	14.2	1.8
September 1965 to August 1966	26.5	11.9	2.3
February 1966 to January 1967	25.1	11.1	2.3
February 1967 to January 1968 [1]	26.3	11.0	2.4
February 1968 to December 1968	25.4	11.0	2.3

[1] Not comparable with earlier data because of the exclusion from the unemployment count of those seeking future jobs and not currently available for work.

Source: Yale Brozen, "The Effect of Statutory Minimum Wage Increases on Teenage Unemployment," The Journal of Law and Economics (April 1969), p. 118.